This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 SANTO DOMINGO 003121

SIPDIS

SENSITIVE

DEPT FOR WHA, WHA/CAR, WHA/AND, INR, EB/ESC/IEC/EPC;
NSC FOR SHANNON; USCINCSO ALSO FOR POLAD;TREASURY FOR
OASIA-MAUREEN WAFER; USDOC FOR 4322/ITA/MAC/WH/CARIBBEAN
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USDOC FOR 3134/ITA/USFCS/RD/WH; DHS FOR CIS-CARLOS ITURREGUI

E.O. 12958: N/A
TAGS: ENRG ETRD PREL DR
SUBJECT: DOMINICAN POLITICS #28: VENEZUELA CHANGES TERMS ON
BOLIVARIAN OIL

¶1. (SBU) This is #28 in our series of political reports on Leonel Fernandez's first year in office.

Bolivarian Oil Dealing Gets Expensive
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Venezuela has abruptly demanded that the Dominican Republic agree to deliveries of petroleum on Venezuelan ships. The Dominicans might find themselves obliged to abrogate a contract with a New-York-based firm that runs through January, 2006.

Background

Director of the National Oil Refinery Aristides Fernandez Zucco got quite exercised when the President,s floating ambassador to Fernandez Zucco commented that Miguel Mejia had instigated the idea of the change with Venezuela and was expecting to profit from it. He insisted to journalists that the Caracas agreement dealt with financing for oil on an FOB basis (cost at port of departure) and that the Dominican refinery (REFIDOMSA) refinery already had a long-term contract for petroleum transport. Zucco got headlines with his assertions that changing these arrangements would cost the government USD 900,000 a month plus possible penalties.

President of the National Ethics Commission Jose Joaquin Bido Medina reportedly advised Zucco to take the volume down, presumably because the discussion would be one between governments.

The Paper Trail
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With the help of some of our contacts, we,ve now gotten copies of some of the exchanges on this subject. On April 14, Simon Suarez, General Manager for trade at Venezuelan oil company PDVSA, informed REFIDOMSA of a "misunderstanding concerning the Caracas Accord" - - that as had recently been agreed "at a high political level in both countrie,s" future sales would be on a cost-plus-freight (C F) basis, with financing offered only for the FOB value. The Dominican refinery officials declined that interpretation in a message on April 19, indicating they had not been informed of any such arrangement.

Venezuelan Minister of Mines Rafael Ramirez Carreo wrote directly to his Caracas Accord counterpart Secretary of Industry and Commerce Francisco Javier Garcia on May 30,

"Within the policy pursued by the Government within the framework of the PETROCARIBE strategy of assuring the quality and timeliness of deliveries of our products within the Caribbean, with this letter we inform you that we have decided to supply crude oil and products to the Dominican Republic, included within the Caracas Accord for Energy Coopertion, using the modality CIF (cost, insurance and freight).

"With that aim, this Ministry instructed PDVSA to draw up appropriate contracts for supplies during the year 2005 according to this new modality. PDVSA,s executive offices have already sent these contracts to you and awaits your approval."

Public Diplomacy, Venezuela-style
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Venezuelan ambassador to Santo Domingo Francisco Belisario Landis confirmed on June 6 that he had delivered a diplomatic note along these lines. The Dominicans had never brought up the question of the private transportation of petroleum, he said. And yes, the accord was drawn up on an FOB basis but there was nevertheless a mechanism for the resolution of differences.

Origins?
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There was early speculation in Santo Domingo that President Hugo Chavez had, once again, taken exception to Dominican business interests, this time those involved in petroleum merchandising. In mid-2003 Chavez told the world he was suspending shipments to the Dominican Republic because President Mejia had failed to respond to information about anti-Chavez plotting here (in fact, strikes and supply shortfalls at PDVSA were a factor in that decision).

Miguel Mejia had asserted that Dominican entrepreneurs tied to the previous administration, "along with at least one official from this administration" had been taking advantage of the lack of a national merchant fleet to make deals to profit themselves.

In fact, REFIDOMSA has since 1998 had long-term contracts with the New-York-based firm OSG Ship Management (511 Fifth Avenue, NY NY 10017, tel 212-953-4100). This was renewed most recently in July, 2004 (coincidentally, just before Hipolito Mejia left office) and runs through January 31, ¶2006. Though the Embassy has no further information about OSG, our contacts in the energy sector suggest to us that as for bribes and pay-offs, they are much more likely to occur if the current contract is broken so as to give the business to PDVSA-affiliated ships.

In the larger scope, in its abruptness and arrogance, this Venezuelan initiative suggests that Chavez,s political vision for PETROCARIBE is going to take precedence over the more mundane and rational business of operating an oil business. No surprise there. And since the Dominicans were enticed into the November 6 agreement by the vision of 15-year financing for a portion of their oil imports, they will have to make very careful calculations, both financial and political, as to whether they will also buy with hard currency this part of the Chavez vision of a Bolivarian Caribbean.

¶2. (U) Drafted by Michael Meigs.

¶3. (U) This piece and others in our series can be consulted at our SIPRNET site
http://www.state.sgov.gov/p/wha/santodomingo/
along with extensive other material.
Hertell